Does your bank offer ethical investments? Corporate Knights visited branches of the Big Five to find out

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Body

From millennials looking to stash their retirement savings in line with their ethics all the way up the corporate ladder to the world's largest investment houses vowing to put climate action at the heart of investment decisions, responsible investing is quickly gaining traction.

According to Ipsos polling released by RBC Global Asset Management last month, two-thirds of Canadians surveyed say they're interested in responsible investment options (or RI, also known as sustainable, socially responsible or ethical investing). Nearly three out of four believe RI is "the way of the future." But with the deadline for retirement-savings-plan contributions less than two weeks away, it turns out that three of Canada's "Big Five" banks don't currently offer any options to meet that demand.

Spotty information

Corporate Knights anonymously visited Toronto branches of the Big Five banks (RBC, BMO, TD Canada Trust, CIBC and Scotiabank) and inquired about ethical investing. While some bank advisers were enthusiastic and fairly well informed, information about responsible investments was often spotty and inconsistent.

Many bank staff weren't sure whether or not their bank offered ethical investments and what those offerings entailed. Some advisers downright discouraged us from putting our savings into RIs, suggesting they were money-losers, while advisers at other banks gushed about how their responsible funds outperform conventional funds.

Notably, BMO and RBC were the only two banks that had dedicated RI funds. Scotiabank and TD trailed at the back of the pack.

The Toronto-based Responsible Investment Association (RIA) did its own polling with Ipsos in 2019 and found that while 79 per cent of Canadian respondents would like their financial services provider to inform them about RI options, only 23 per cent have been asked by their banks if they're interested in RI. That helps explain why only a quarter of Canadians say they already have responsible investments, according to stats from Wealthsimple, BMO and the RIA.

Meanwhile in the U.S., new investments into sustainable funds quadrupled in 2019 compared to 2018, and in Europe investments doubled, according to new Morningstar data.

Regulating green investing

The tricky part for would-be purchasers is figuring out what investments genuinely align with their values. One CIBC branch adviser told Corporate Knights that "all the mutual funds we offer have gone through these ESG (environmental, social and governance) checks." Ditto for all of RBC's funds around the globe. That doesn't mean

they screen out any dubious companies or sectors. Part of the problem is there's no universal standard for how terms like "ESG," "low carbon" and "fossil-fuel free" are defined or applied, leaving funds vulnerable to "impact washing."

Many Canadian ethical fund managers choose not to screen out fossil-fuel companies, instead investing in those they consider sector leaders. Which is fine for some responsible investors - if funds are transparent about it. But after the RIA received flak for listing fossil-fuel-free funds in its directory that were later exposed to contain oil and gas companies, the association is now considering creating a certification process for RI funds in Canada.

To counter "impact washing" in Europe, the EU passed a disclosure regulation in December that sets standards for financial product labelling, mandating that financial advisers disclose the sustainability risks of a finance product to investors.

Canada's federally convened Expert Panel on Sustainable Finance recommended we do something similar here.

How green are the bank's own investments?

Many climate-conscious investors will also want to know just how their banks are dishing out their own money.

All five banks have signed on to the UN-supported Principles for Responsible Investment, promising to fold ESG factors into investment decisions, though research by Corporate Knights has found that while the Big Five invest billions in sustainable-solution companies, they also invest billions in controversial weapons, for-profit prisons and severe environmental violators, as well as a number of other themes that would register as egregious on many responsible investors' radars (see report card). All five also have loan books bulging with fossil fuels in relation to their renewable energy lending, putting them at odds with global money trends.

In the meantime, the first RRSP deadline (March 2) of the new decade gives Canadians a chance to rethink their finances, knowing there are now at least some options on the shelf that allow them to bank on a sustainable future.

Big Five ethical investing report card

We visited Toronto-area branches of the Big Five banks and asked advisers what ethical or sustainable investment options they offered. Here's what we found:

Scotiabank

Ethical options: No responsible funds available in branch, though Scotiabank said in a statement that it has "considered" ESG factors in the investment process, and added, "Scotia iTRADE offers sustainable investing tools [online]."

Fossil-fuel-free or climate-conscious funds: No.

Knowledge of adviser: The personal banking adviser was unaware of any sustainable options and returned five minutes later to confirm that no options exist that the bank's financial advisers were aware of.

Cost of values-aligned portfolio: N/A.

Bank loans and investments (clean vs. dirty): Scotiabank dishes out the second-most oil and gas loans ($14.8 billion), compared to zilch in loans to renewables.

Score: D-

TD Canada Trust

Ethical options: TD Canada Trust discontinued its sustainability funds in 2013, and at this point there are no specific RI-themed funds available to Canadians at branch level. TD did not respond to our request for comment.

Fossil-fuel-free or climate-conscious funds: No.

Knowledge of adviser: One bank adviser was blunt, saying "To be completely honest, most socially aware investment funds don't make a lot of profit. As such, we don't have funds that invest in these companies."

Cost of values-aligned portfolio: N/A.

Bank loans and investments (clean vs. dirty): TD has the smallest oil-and-gas loan book of the Big Five, but its investment book is another story. Among the Big Five, it has the worst ratio of investments in sustainable-solution companies to harmful companies.

Score: D-

CIBC

Ethical options: No specific RI funds. CIBC's VP of public affairs says that "ESG factors are included in our investment process across all funds."

Fossil-fuel-free or climate-conscious funds: No.

Knowledge of adviser: Initially, the branch manager said that CIBC has some ethical funds that "don't invest in tobacco companies or oil companies," but the manager and a financial adviser weren't aware of specifics, so they placed a phone call. "We don't get asked this question frequently," the manager said. After their call, the manager updated earlier comments: "The good news is there's no specific mutual funds that actually do that since all the mutual funds we offer have gone through these ESG checks."

Cost of values-aligned portfolio: N/A.

Bank loans and investments (clean vs. dirty): CIBC says all its funds are filtered through an ESG lens, but it has $2.7 billion, or 6.4 per cent of assets, invested in companies flagged for harmful products and activities, including palm oil deforestation and severe human rights violations. On the bright side, 9.4 per cent of its investments are in companies tagged as sustainable-solution providers. On the loan side, CIBC's exposure to oil and gas companies is almost five times as large as its renewable energy book.

SCORE: D

RBC

Ethical options: RBC's Vision line uses ESG filters to determine holdings while screening out weapons makers, as well as traditional sin stocks like tobacco and alcohol. RBC Vision also has a Women's Leadership fund.

Fossil-fuel-free or climate-conscious funds: Yes: the RBC Vision Fossil Fuel Free Global Equity Fund. Though a financial planner at one branch said the bank doesn't offer entirely fossil-free options, suggesting that omitting a whole sector could limit the opportunity to grow. RBC's Vision Fossil Fuel Free fund actually outperformed RBC's Global Equity Fund in both 2018 and 2019.

Knowledge of adviser: The financial planner was well versed in the Vision line (besides fossil-free funds) and enthusiastic about the Vision balanced fund, saying it has outperformed RBC's regular balanced fund ("being green is saving companies a lot of money down the road").

Cost of values-aligned portfolio: Varies, but many are slightly lower than conventional funds.

Bank loans and investments (clean vs. dirty): Canada's largest bank has the highest total amount of oil-and-gas loan exposure on its books ($16.4 billion). That's more than seven times more than its renewable loans, which gets it into trouble with environmental activists, though it also has the biggest ratio of investments in sustainable solutions to harmful companies among the Big Five.

Score: C+

BMO

Ethical options: Branches offer BMO's Sustainable Opportunities Global Equities mutual fund, as well as a Women in Leadership fund. There are eight new ESG ETFs for self-directed online accounts.

Fossil-fuel-free or climate-conscious funds: Yes: the BMO Sustainable Opportunities fund.

Knowledge of adviser: The personal bank associate was enthusiastic about BMO's sustainable opportunities fund, explaining that she invests in it herself, but she cautioned that it is mid-to-high risk and is best for longer-term investments. A financial planner follows up via email to discuss ESG options further.

Cost of values-aligned portfolio: Fees vary, but the Sustainable Opportunities fund has a somewhat lower fee than comparable BMO funds. The ESG ETF fees are also priced lower than many non-RI equivalents.

Bank loans and investments (clean vs. dirty): BMO has both the biggest renewable-energy loan book and sustainable-solutions investment book among the Big Five, but it has the largest amount invested in companies classified as "harmful."

SCORE: B-

NOTE: Loans for renewable energy were sourced from the banks' sustainability reports for fiscal year 2018 and bank loans to oil and gas companies were sourced from their annual reports for fiscal year 2018. Bank investments in companies were sourced from S&P Capital IQ. Companies were classified as "clean" if they derived more than 20 per cent of their revenue from environmental or social solutions consistent with the Corporate Knights Clean Revenue taxonomy, and as "dirty" if they are responsible for controversial products (like cluster bombs and for profit prisons) or egregious conduct (like severe environmental damage and animal cruelty) according to the Corporate Knights Dark Red Flag database which covers 21 different themes.This story was provided by Corporate Knights magazine

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